



Vichaara

An International Journal of Management

Volume: 2

September 2015

Number:2

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Case Study on the Global Strategies of Tata Tea Ltd ('Make in India' Realistic)

Duraiarasi Balasundaram, B.Com., M.Sc (IT)., MBA., University of Derby (UK)

CASE STUDY

EXECUTIVE SUMMARY

INTRODUCTION

Tata Tea was started in India in 1964 as a joint venture named Tata Finlay, with UK based James Finlay & Co to develop value-added Tea. In 1983 the Tata's acquired the entire shareholding of James Finlay to rechristen the company as Tata Tea Limited. Today Tata Tea Ltd (TTL) and UK based Tetley group represent the world's second largest global branded tea operation with product and brand presence in 40 countries. The major competitor for Tata Tea Ltd is Hindustan Unilever which contributes 30 per cent of India Tea market share. The market analysis of TTL in the rural market is down compared to Unilever so TTL should introduce new 'Health Beverage' products to the rural areas. Tata Tea Ltd use of RtM (Root-to-Market) strategy is a tool to distribute the product easily from the village customers and increase the rural market after three years.

Market segmentation of TTL is Health Beverage products and customer target from all types of customer in the rural areas. TTL is a world famous brand so brand position is easy for the company. Customer satisfaction level of this company use L&L (Listen and Learn) method, recommended that Tata Tea pursues the "New Segmentation Strategy" when opportunities arise. And another recommendation of TTL, there is more than 1000 tea companies in India. Tata tea can increase its market share and penetration by acquiring these small companies and also forming mergers with other big MNCs. Tata Tea Ltd continues to invest in new product launches and explore geographic expansion. The out-of-home is a big opportunity TTL perfectly fitting with the opportunities and increase the growth in the market.

Global Tea Industry:

Tea is globally one of the most popular and lowest cost beverages, next only to water. Tea is consumed by a wide range of age groups in all levels of society. More than three billion cups of tea are consumed daily worldwide (Alastair Hicks, 2009). Several economic, social and ecological factors pose many challenges to hinder the growth and sustainability of the tea industry worldwide today. However, recognition of the critical need and urgency to address these issues seem alarmingly low. Amongst the issues that challenge the industry is one of oversupply as demand has failed to keep pace with production increases. World production over the last three decades has doubled. It is also noteworthy that almost 56 percent of all tea produced worldwide is consumed locally.

Global tea production reached 3,447.57 Mn. Kgs. in 2011. While tea is produced in more than 35 countries, only a handful China, India, Sri Lanka and Kenya - account for almost three-quarters of production. China and India are today the world's top tea producing as well as consuming nations and as noted by the United Nations Food and Agriculture Organization (FAO), with tea consumption in these two countries rising by 5.6%, the global tea industry is being driven by these two giants. China heads the list of producers contributing 33% of world production with an annual production of 1.4 million tones whilst India is expected to produce around 1.1 Mn. Tones in 2011/12.

Tata Tea Ltd Global Entry

Among India's first multinational companies, the operations of Tata Tea and its subsidiaries focus on branded product offerings in Tea but with a significant presence in plantation activity in India and Sri Lanka.

The consolidated worldwide branded tea business of the Tata tea group contributes to around 88 per cent of its consolidated turnover with the remaining 12 per cent coming from bulk Tea, coffee, and investment income. The company is headquartered in Kolkata and owns **54 Tea estates** in India as an entity. With an area of 15,000 hectares under tea cultivation, the company

produces around 70 million Kilo Grammas of black tea annually. Its tea estates are located in the states of Assam and West Bengal in eastern India and Kerala and Tamil Nadu in the south. The company has a strong distribution network in India reaching out to over 1.7 million retail outlets in India. The company has five major brands in the Indian market - Tata Tea, Tetley, Kanan Devan, Chakra Gold and Gemini to cater to all major consumer segments for tea. Tata Tea leads market share in terms of value and volume in India. Full-fledged research and development centers of the company focusing on the branded tea business and a product development centre at Bangalore, Karnataka focused on the entire range of tea operations.

Brand	Company	CY2010
Tata Tea	TGBL	19.7
Brooke Bond	HUL	19.1
Duncans	Duncans Industries	8.6
Lipton	HUK	6.2
Wagh Bakri	Wagh Bakri	3.5
Kanan Devan	TGBL	3.3
Goodricke	Goodricke Group	1.5
Twinings	Twinings Pvt Ltd	1.2
Golden Tips	Golden Tips Tea Co	1.1
Girnar	Girnar Food & Beverages	1.0
Jay Green Tea	Jay Shree Tea	0.7
Tetley	TGBL	0.5
Kho-Cha	Kho-Cha Darjeeling Tea Bureau	0.2

Figure 1: Top Tea brand shares in India (% Retail value) (Source: Euro monitor International, Angel Research, 2011).

Tata Tea Ltd contributions in making ‘Made in India’ global:

Tata Tea Ltd, as part of its stated strategy to globalize, has charted out its vision to be the market leader in the country and increase reach in the global market. For this the company has followed a strategy of forming subsidiaries or entering into alliances in countries that have a significant presence in the tea market, both from the producer as well as consumer side. The first move towards globalization was the formation of its 100 per cent subsidiary in the USA in 1987. This was followed by its presence in the plantation industry in Sri Lanka. This was the biggest ever cross-border acquisition by an Indian company at that time and was also the first leveraged

buyout by an Indian firm.

Company	2005	2010
Nestlé SA	15.1	15.2
Kraft Foods Inc.	7.9	7.8
Unilever Group	4.5	4.4
Sara Lee Corp	3.2	3.4
Tchibo GmbH	1.8	1.6
Tata Global Beverages Ltd	-	1.3
Associated British Foods Plc (ABF)	1.4	1.3
JM Smucker Co, The	-	1.2
Strauss Group Ltd	0.1	1.2
Lavazza SpA, Luigi	1.2	1.1

Figure 2: Top- 10 Global Players (% of trade value) - Hot drinks category (Source: Euro monitor International, Angel Research, 2011).

Competitive Position of Tata Tea Ltd:

The tea industry in India is about 170 years old. It occupies an important place and plays a very useful part in the national economy. India produces 30% of the total tea supply of the world. The Herfindahl Index of Indian tea industry is 0.07. This value is very small, and it shows a highly competitive monopolistic competitive market. The competition in the industry is mainly based on product differentiation. HUL and Tata Tea jointly control a market share of more than 40% in the Indian tea industry. The remaining market is far more fragmented and shared between many small and regional players. HUL is the market leader in the industry with 20.2% of market share (value). It operates under its two brands, Lipton and Brooke Bond under which it has several sub-brands like Taaza, Taj Mahal, Green Label, etc. Apart from producing tea from its own estates, HUL also purchases finished goods from third party vendors at cheap rates. The average price at which HUL sells its products is Rs.170/kg which is around Rs. 8 higher than that of Tata Tea which is one of the reasons why HUL has greater revenue than Tata Tea. HUL Rural market is high compared to Tata Tea.

Tata Tea and HUL have been fighting with each other over the market leadership. Tata Tea attacked the brands of HUL by introducing new varieties of tea under its stable. It started aggressive advertising campaigns which led to a substantial increase in the profits of Tata Tea. It

also increased its production by 10% in order to increase its products in the market. The result of all these moves was an increase in the market share of Tata Tea while the market share of HUL saw a decline. HUL, realizing that Tata Tea is slowly eating away its market share, prepared a counter strategy to handle Tata Tea.

Competitive Advantage:

The competitive advantage that focused on the product and quality has become progressively more inclusive and determined by a comprehensive way of doing business. It covers not only quality, but also issues related to supply chain, sourcing, processing, impact on society and environment over short and long term. Tata Tea Ltd recognizes this and has put special emphasis on not just production of quality tea but also how its operations are affecting the society and environment.

Competitive Position of Tata Tea Ltd			
<p>Heritage: Tata Tea Ltd is part of the tata group, one of the India's most respected business houses. the Tata name has been respected in India for more than 140 years for its adherence to strong values and business ethics.</p> <p>Innovation: TTL has a strong track record of innovation. TTL introduce new variety of health beverages ex: Herbal Tea and T!on Fruit Tea</p>	<p>Experience: Tata Tea Ltd has rich experience in the beverage category. we have evolved from our strong heritage in tata plantations to marketing and brand focused organization with a portfolio of dynamic brands.</p> <p>Production increase: TTL increase the production for last few years (Refer appendix 2 for TTL increase production).</p>	<p>Global presence: Our products are present in over 70 countries across the globe. we are focused on expanding our global footprint by entering new markets and new channels with global testing beverages that are also good -for-you.</p> <p>Route-to-Market(RtM) or Operation Bharat: TTL increased its advertising campaign and distribution network. TTL used RtM strategy. it is easily distribute the products to rural areas.</p>	<p>Strong brands: Our brands are our most valuable assets. at a brand and product level we are using our imagination to change and inspire the way consumers enjoy tea around the world and are applying this passion and insight to the rest of the beverage category, we are constantly re-imagining our brans in light of the ever changing consumer and market landscape.</p>

Figure 3: Competitive Position of Tata Tea Ltd

Focus on Customer Satisfaction:

India is the largest consumer of black tea in the world, which is consumed in more than 90% of households in India. Due to habit driven nature of the category, the only way to trigger brand switch is to differentiate and innovate the product. The Tata Tea Ltd products reach end

consumers passing through internal customers who are involved at different levels of value/supply chain. Each of these internal customers provides valuable insights on customer reactions and expectations. Identifying their significance the company has developed different sets of 'Listening & Learning' methods to capture them. These L&L methods are evaluated and improved annually at the annual marketing and sales conference.

The in-depth knowledge of the end-consumer requirements, obtained from various structured outreach mechanisms, help the Company to exceed them and build a long term relationship. This is primarily done by a two-pronged strategy, first to manage existing relationships by meeting the price-value requirement of established brands and second to reach out to newer segments and section by constantly innovative the product portfolio. The launch of t!ON has been a step in this direction.

Suggestions:

Based on the evaluation of strategies against the criteria described, it is recommended that Tata Tea pursues the "New Segmentation Strategy" when opportunities arise. TTL efforts should be concentrated toward segmentation for Health Beverage product and investing toward Health product ex: Herbal and Fruit Tea. As Tata Tea Ltd puts its efforts towards the health product segment within the rural market, repositioning tea as an important product to health conscious consumers and responds to consumer taste for the exotic with its investment of Herbal, Fruit and Gluco tea product, will increase the brand presence and market power. There are so many opportunities in Health Beverage Product so Tata concentrating in this sector with increase the new market and increase the distribution capabilities. Tata Tea Ltd distributes the product for Route-to-Market (RtM) strategy in rural areas. For distributing through Door-to-Door sale will increase the rural market shares after three years. There are more than 1000 tea companies in India. Tata tea can increase its market share and penetration by acquiring these small companies and also forming mergers with other big MNCs.

Conclusion:

The world retail packaged tea market is worth US\$20.3 billion and the world ready-to-drink tea market is US\$24.5 billion. Currently consumer demand for traditional black tea products is

declining, while sectors such as specialty, green, fruit and herbal infusions are growing rapidly. To take advantage of this trend TTL has been building its business in these high value sectors during the past year by supporting key products, anticipating and responding to consumer needs with a range of new product developments, and making acquisitions.

The fragmented nature of the global tea market makes it ripe for consolidation and many tea markets have strong, established brands whose presence makes organic growth slow and costly. Given the brand leadership role its key markets and the current upturn in domestic demand in most countries, Tata Tea Ltd should continue to invest in new product launches and explore geographic expansion. The out-of-home is a big opportunity for TTL perfectly fitting with the opportunities and increases the growth in the market and stay relevant at all times both domestically and globally.

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